

INSURANCE  
PRINCIPLES FOR DECISIONS

GUIDELINES AND RESOURCE MATERIAL  
FOR EDUCATIONAL MEETINGS

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## R I S K

AN IMPORTANT PART OF LIFE THAT CREATES A NEED FOR  
INSURANCE

PEOPLE REACT DIFFERENTLY TO RISK

RISK-LOVERS

RISK-AVERTERS

CONFUSING TERMINOLOGY

PERIL

HAZARD

LOSS

RISK

KINDS OF RISK

NON-ECONOMIC

ECONOMIC

SPECULATIVE (LOSS OR GAIN)

PURE (LOSS OR NO LOSS)

PERSONAL

PROPERTY

LIABILITY

## M A N A G I N G   R I S K

MANAGING RISK REDUCES THREAT TO SECURITY

### MANAGEMENT METHODS

AVOID

RETAIN

UNPLANNED

LACK OF KNOWLEDGE

PUTTING IT OFF

IGNORING

PLANNED

UNINSURABLE

SMALL LOSS

FREQUENT LOSS

COST TOO GREAT

REDUCE HAZARD

REDUCE LOSS

SHIFTING RISK

REDUCING RISK

DIVERSIFICATION

GOOD MANAGEMENT

INSURANCE

# I N S U R A N C E

W H A T   I S   I T ?

METHOD FOR REDUCING THE UNCERTAINTY OF INDIVIDUAL LOSSES  
TO A PREDICTABLE LOSS THAT IS SHARED

SUBSTITUTE A SMALL CERTAIN COST (PREMIUM) FOR A LARGE  
UNCERTAIN LOSS

H O W   D O E S   I T   W O R K ?

INSURANCE EQUATION

RECEIPTS = EXPENSES

COST OF LOSS IS GREATER WITH INSURANCE

LAW OF LARGE NUMBERS

EXPERIENCE GENERATES PROBABILITY OF LOSS COMPANY

SELECTS INSURANCE RISK

# SELECTING A REPRESENTATIVE

## TYPES OF REPRESENTATIVES

### 1. AGENTS

REPRESENTS INSURER  
PROPERTY AND/OR LIFE  
GENERAL OR LIMITED

### 2. BROKER

REPRESENTS INSURED  
LARGE OR UNIQUE SITUATIONS

### 3. SOLICITORS

EMPLOYED BY AGENT OR BROKER

### 4. SERVICE REPRESENTATIVE

EMPLOYED BY INSURER

## CRITERIA FOR SELECTION

HANDLE ALL NEEDS

KNOWLEDGE

EXPERIENCE

WILLINGNESS

INTEGRITY

FULL-TIME

CLU OR CPCU

## S E L E C T I N G   A N   I N S U R E R

GOVERNMENT  
(COMPULSORY)

VS.

PRIVATE  
(VOLUNTARY)

### TYPES OF PRIVATE INSURERS

1. STOCK  
PROFIT FOR STOCKHOLDERS  
NON-ASSESSABLE
2. MUTUAL  
OWNED BY POLICYHOLDERS  
DIVIDENDS  
POLICIES  
NON-ASSESSABLE  
ASSESSABLE
3. OTHER  
LLOYDS  
ASSOCIATIONS

CRITERIA FOR SELECTION  
FINANCIAL STRENGTH  
SERVICE  
COST

GUIDELINES FOR DECIDING WHICH INSURANCE  
TO PURCHASE

CANNOT CARRY ALL THAT IS OFFERED

DO NOT CARRY INSURANCE FOR THESE RISKS

CANNOT HAPPEN TO YOU

ALMOST CERTAIN TO HAPPEN

A MINOR LOSS IF IT HAPPENED

LOSS CAN ~~BE~~ MEASURED IN DOLLARS

DO CARRY INSURANCE FOR THESE RISKS

(MUST MEET ALL TESTS)

POSSIBLE

SMALL CHANCE OF HAPPENING

A MAJOR LOSS IF IT HAPPENED

LOSS CAN ~~BE~~ MEASURED IN DOLLARS

## L I F E   I N S U R A N C E

MOST VALUABLE ASSET -- ABILITY TO EARN INCOME

RISK -- DIE TOO SOON

TYPES OF LIFE INSURANCE

1. PROTECTION

LEVEL TERM

DECREASING TERM

2. PROTECTION PLUS INVESTMENT

WHOLE LIFE

ENDOWMENT

PARTIES TO A POLICY

INSURED

OWNER

BENEFICIARY



# PROPERTY (FIRE) INSURANCE

INSURED TO EXTENT OF LOWEST OF TWO VALUES

POLICY VALUE

CASH VALUE

MARKET

BOOK

REPLACEMENT

REPLACEMENT MINUS DEPRECIATION

## TYPES

STANDARD FORM

SPECIFIC - BLDG. AND CONTENTS

BLANKET - DIFFERENT BLDGS. OR LOCATION

FLOATER - UNCERTAIN LOCATION

AUTOMATIC - CHANGING VALUE

SCHEDULE - UNIQUE LARGE RISK

EXTENDED COVERAGE - WIND, HAIL, SMOKE, ETC.

BROAD FORM -- SNOW, GLASS, WATER, ETC.

ADDITIONAL LOSSES -- LIVING, CROP, ETC.

## C O - I N S U R A N C E   C L A U S E

ENCOURAGES REASONABLE COVERAGE

80% COMMON

IF LESS YOU BECOME CO-INSURER

### FORMULA

$$\frac{\text{INSURANCE CARRIED}}{\text{INSURANCE REQUIRED}} \times \text{LOSS} = \text{PAYMENT}$$

### EXAMPLES

\$100,000 BUILDING AND 80% CO-INSURANCE

<u>INSURANCE</u>	<u>LOSS</u>	<u>PAYMENT</u>
\$ 60,000	\$ 40,000	\$ 30,000
\$ 60,000	\$100,000	\$ 60,000
\$ 80,000	\$ 40,000	\$ 40,000
\$ 80,000	\$100,000	\$ 80,000
\$100,000	\$40,000	\$ 40,000
\$100,000	\$100,000	\$100,000

### M I S U N D E R S T O O D

# LIABILITY INSURANCE

TO SUE OR NOT TO SUE, THAT IS THE QUESTION  
WHY NOT?

## LEGAL BASIS FOR LIABILITY

WRONGS - RIGHTS OF OTHERS  
ASSUMED - CONTRACTS  
TORTS - ACTS  
NEGLIGENCE - UNINTENTIONAL

## TYPES OF LIABILITY

### EMPLOYERS LIABILITY

WORKMEN'S COMPENSATION - NO LIABILITY

PRIVATE

AUTOMOBILE

FAULT VS. NO-FAULT

CASUALTY - BODY, PROPERTY, MEDICAL

GENERAL

PERSONAL

BUSINESS

PROFESSIONAL

# UMBRELLA LIABILITY INSURANCE

## SUPPLEMENTAL NOT FULL-COVERAGE

<u>TYPE OF LIABILITY</u>	<u>NORMAL POLICY</u>	<u>UMBRELLA COVERAGE</u>
BODILY INJURY		
PER PERSON	\$100,000	LIMIT MINUS NORMAL
PER INCIDENT	\$300,000	LIMIT MINUS NORMAL
PROPERTY	\$ 50,000	LIMIT MINUS NORMAL
PRODUCTS	\$300,000	LIMIT MINUS NORMAL
EMPLOYERS	\$ 25,000	LIMIT MINUS NORMAL
CONTRACT	NONE	\$25,000 DEDUCTIBLE
WATER	NONE	\$25,000 DEDUCTIBLE
PERSONAL INJURY	NONE	\$25,000 DEDUCTIBLE
AIRCRAFT	NONE	\$25,000 DEDUCTIBLE
MALPRACTICE	NONE	\$25,000 DEDUCTIBLE
ADVERTISER	NONE	\$25,000 DEDUCTIBLE
PROPERTY CARE	NONE	\$25,000 DEDUCTIBLE